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THE EFFECT OF GOOD CORPORATE GOVERNANCE AND FINANCIAL PERFORMANCE ON THE CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE OF TELECOMMUNICATION COMPANY IN INDONESIA

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Abstract—*The company's annual report is a medium of communication between companies and communities who need financial information and company developments. Currently, not only financial information are taken into consideration for investors, but also information on corporate social responsibility. This study aims to give an idea of corporate social responsibility disclosure in the Indonesian telecommunication sector and to know that the good corporate governance and financial performance affect the disclosure of corporate social responsibility. Data analyze using multiple regression analysis (multiple regression), which indicates there is a relationship of good corporate governance and financial performance with corporate social disclosure in accordance hypotheses simultaneously, while institutional ownership and the audit committee significantly affect the disclosure of corporate social responsibility partially.The next stage is using backward regression analysis method and found that the audit committee is the most influential variable on the disclosure of corporate social responsibility.*

Keywords: Good Corporate Governance, Corporate Social Responsibility Disclosure, firm size, profitability, leverage.

I. INTRODUCTION

Corporate Social Responsibility practices plays an important role for the company because the company live in the community and the possibility of its activity has social and environmental impacts. Disclosure of social responsibility is a managerial tool that companies use to avoid social and environmental conflicts. In addition, the disclosure of social responsibility can be viewed as a form of company accountability to the public to explain the social impact of the company (Ghozali and Chariri, 2007).CSR as an idea, the company no longer faced with the responsibility that rests on a single bottom line, the value of the company (corporate value) which is reflected in its financialcondition only. But corporate responsibility should rest on the triple bottom lines, financial information, social and environmental information, which is then called a sustainability report.As shown on Figure 1.

Figure 1. "Triple Bottom Line" of CSR

Sustainability reporting has gained attention in the practice of global business and become one of the criteria in assessing a company's social responsibility. The leaders of the world's companies are increasingly recognizing that a more comprehensive disclosure statements (not just financial statements) will support the corporate strategy.Practices and the disclosure of corporate social responsibility is a logical consequence of the implementation of the concept of Corporate Governance, which states that companies need to consider the interests of its stakeholders,in accordance with existing rules and to establish active cooperation with its stakeholders for long-term survival of the firm (Utama, 2007).

Theoretically, the implementation of Good Corporate Governance (GCG) can increase the value of the company, due to the implementation of good Corporate Governance to reduce risk that may be made by the board with the decisions that benefit themselves, and general corporate governance can increase the level of investor confidence (Newell and Wilson in Juniarti and Sentosa, 2009). The increased level of confidence was due to GCG well implementation considered capable of providing effective protection to the investor in obtaining a reasonable return of investment (Tjager et al. In Juniarti and Sentosa, 2009). Measurement of GCG implementation by the company can be proxied with a few indicators such as managerial ownership, institutional ownership,independent commissioners, commissioners, and the size of the audit committee.

II. BUSINESS ISSUE

Awareness about the importance of implementing CSR is becoming a global trend in line with the rise of global public awareness of the products that are environmentally friendly and manufactured with attention to social norms and principles of human rights. For example, European banks only lend to plantation companies in Asia where there is a guarantee of the company, ie, when they not opening plantations by burning the forest. Other global trends in CSR implementation in the field of capital markets is the adoption of an index that includes the category of stocks that have been practicing CSR.

For example,the New York Stock Exchange has the Dow Jones Sustainability Index (DJSI) for the shares of companies that have considered the value of corporate sustainability with one of the criteria is the practice of CSR. Similarly, the London Stock Exchange which has a Socially Responsible Investment (SRI) Index and the Financial Times Stock Exchange (FTSE) which has the FTSE4Good since 2001.

A. Conceptual Framework

The study was conducted to give an idea of the impact of good corporate governance and financial performance of companies on the disclosure of social responsibility undertaken by the company in Indonesia in general and telecommunications companies in particular.

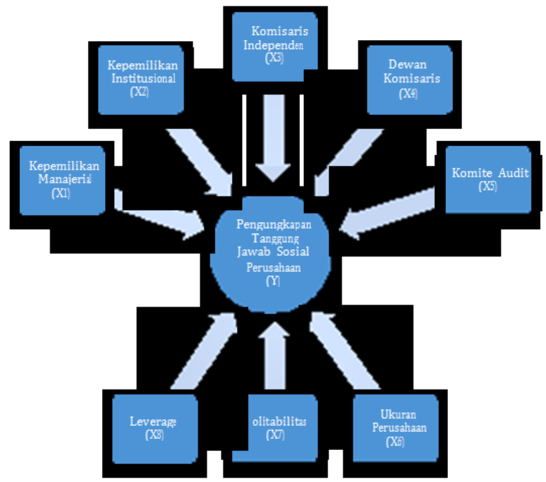

Figure 2. Conceptual Framework

Measurement of GCG implementation by the company can be proxied with a few indicators such as managerial ownership, institutional ownership, independent commissioners,commissioners, and the size of the audit committee. As shown on Figure 2.

Firm size is a company that is widely used predictor variables to explain variation in disclosure in corporate annual reports.

While the assessment of financial performance can be seen from the company's ability to generate profit and leverage. Profitability ratio indicates the company's success in generating profit, and leverage is a tool to measure how much the company depends on the lender to finance the company's assets.

Agency theory also predicts that firms with higher leverage ratios will reveal more social information, due to agency costs as the company's capital structure is higher (Jensen and Meckling in Anggraini (2006).

B. Method of Data Collection and Analysis

The sampling technique used in this study were saturated sampling. According Sugiyono (2004: 61) saturated sampling is a technique of determining if all members of the population sample used as a sample. This is often done when the population is relatively small, less than 30 people. Another term is saturated sample census, in which all members of the population sampled. Overall sample, among others:

1. PT Bakrie Telecom Tbk (BTEL)
2. PT XL Axiata Tbk (EXEL)
3. PT Mobile-8 Telecom Tbk FREN)
4. PT Inovisi Infracom Tbk (INVS)
5. PT Indosat Tbk (ISAT)
6. PT Telekomunikasi Indonesia (Persero) Tbk (TLKM)

By engaging the the variables of the study:

1. Managerial Ownership (X1); the number of shares held in company management in a period. The indicator is the number of shares owned by management and the number of shares outstanding.
2. Institutional ownership (X2);the number of shares owned by a instituasi in a company in a period. Indicator is the number of shares owned by institutions and the number of shares outstanding.
3. Independent Commissioner (X3); that is a commissioner who has no ties to the company and in charge of overseeing the management of the company. Indicator is the number of independent commissioner and the commissioner of the total.
4. Board of Commissioners (X4); that is a commissioner who has ties to the company and served in overseeing the management of the company. Indicators and measuring tools is the number of commissioners which was recorded in the financial laportan in one period.
5. Size of the Audit Committee (x5); additional organ in charge of the company in assisting the board of commissioners. Indicators and measuring tools is the number of audit committee members are recorded in the financial laportan in one period.
6. Company size (X6); that is a large scale in which small firms can be classified according to a variety of ways, including: total assets, log size, the value of the stock market, and others. In this case, an indicator of firm size used is the ratio of net profit after tax (profit after tax) of net sales (net sales).
7. Profitability (X7); the company's ability to earn income (profit) at a certain period. Profitability indicators in this study is the ratio of ROE.
8. Leverage (X8); the company's dependence on debt to finance its operations. Leverage indicator in this study is the ratio of DER.
9. Disclosure of Corporate Social Responsibility (Y); Disclosure of social responsibility is measured by proxy CSRDI (corporate social responsibility disclosure index). This approach essentially uses the dichotomy approach to CSR that every item in the research instruments were given a value of 1 if disclosed, and the value 0 if not disclosed. Furthermore, the score of each item are summed to obtain the overall score for each company. CSRDI calculation formula is as follows:

$$CSRDI_j = \frac{! X_{ii}}{n_j}$$

Description:

CSRDIj = Corporate Social Responsibility Disclosure Index company j,
nj = number of items for company j, nj ≤ 78
Xij= Dummy variable: 1 = if the item i expressed; 0 = if the item i was not disclosed.
Thus, 0 ≤ CSRDI

III. ANALYSIS

After passing the classic assumptions test, which is the test for normality, multicollinearity,and heterokedastisity,then the data using multiple regression analysis indicates there is a relationship of good corporate governance and financial performance with corporate social disclosure in accordance hypotheses simultaneously,

while institutional ownership and the committee significantly affect the audit of corporate social responsibility disclosure partially. Institutional ownership are generally able to act as a monitor side firms. Firms with large institutional ownership indicates its ability to monitor management.The greater the institutional ownership, the more efficient utilization of corporate assets and can be expected also to act as a preventive against waste by management. This means that institutional ownership may be the driving force companies to make disclosure of social responsibility. Independent or external influence in CSR disclosures appear to influence the Audit Committee. Audit Committee is responsible to a company's financial statements, corporate governance and corporate control. Negatively affect the profitability of corporate social responsibility disclosure.

This is supported by the argument that when a company has a high rate of profit, the company (management) do not need to report considers the things that can interfere with information about the company's financial success. Conversely, when low levels of profitability, they expect the users of the report will read "good news" the company's performance. In this study, the leverage proxied with debt to equity showed no significant effect on the disclosure of corporate social responsibility. This means that the high and low levels of leverage does not affect the company's broader corporate social responsibility disclosure. Thus these results failed to support the agency theory. After further research by multiple linear regression analysis (backward method) then showed that the audit committee is the most influential variable. This is because the role of the audit committee as to ensure that the interests of shareholders are protected well in conjunction with reporting finance (financial reporting) and internal control (internal control).

IV. CONCLUSION & RECOMMENDATION

From the above studies demonstrate CSR disclosures by a company in the telecommunications sector carried out by an independent influence or the influence of external parties. The larger a company and the more profit the company is no guarantee that the more extensive disclosure of social responsibility. Annual reports for large telkommunication company is not as an efficient tool for disseminating information on CSR.

Recent research conducted by Hill et. al (2007) gives an overview which supports the implementation of CSR as being part of the company's business strategy. Hill et. al conducted a study of several companies in the United States, Europe and Asia who practice CSR and relate it to the measured value of the company's stock value of companies. Their study found that after controlling for other variables of the companies doing CSR, in the short term (3-5 years) did not experience a significant increase in stock value, however, in the long term (10 years), companies are committed to CSR is, to increase share value is very significant in comparison with those companies who do not practice CSR. From these studies can be seen that the CSR in the short term does not provide adequate value for shareholders,because the cost of CSR, even reducing the company's profit can be achieved.

However, in the long run, companies that have a strong commitment to CSR, its performance was beyond the companies that have no commitment to CSR. In short, CSR can create value for companies, especially in the long run.There are still many companies do not want to run CSR programs because he saw it only as an expenditure (cost center). CSR does not provide the financial results in the short term. But the CSR will result either directly or indirectly on the company's financial future. Thus if the companies do CSR programs are expected to sustainability will be secured with good company. Therefore, CSR programs more appropriately classified as an investment and should be the business strategy of a company.

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